J. A. Livingston

Mutual Funds Prove Point; Outperform Market as Whole

AS EXPERTS, mutual fund managers profit from experience. That's what expert means.

It didn't take long for sales executives to discover that investors want big percentage gains. Portfolio managers tailored their product accordingly—and successfully. In recent years, go-go funds—accent on action and growth—have outperformed the stock market as a whole.

This was not always so. At Senate Banking & Currency Committee hearings last year, Sen. Thomas J. McIntyre (Dem. N.H.) contended he could do better than mutual fund experts by throwing darts at a newspaper stock table. His evidence was not exactly scientific. But I can corroborate it.

In the three-year intervals 1960-62, 1961-63 and 1962-64, the Standard & Poor's 500 stock average (adjusted) outperformed Growth funds as a group.

Tenyear results also supported the dart theory. For 1953-62 and 1954-63 Growth funds and Standard & Poor's ran neck and neck in performance. In 1965-64 S&P clearly did better. Then the experts began to catch on and up.

THE DECISIVE turn came three years ago. In the three-year intervals 1963-65, 1964-66 and 1965-67, the Growth funds as a group outdistanced the S&P 500 (see chart). And in the ten year intervals ending in 1965, 1966 and 1967 the Growth group also did better.

Go-go funds ferreted out new industries and companies. They took greater risks by increasing commitments to volatile and sometimes unseasoned stocks. Put-'em-away-and-watch'-em patience was subordinated to short-term profits.

This worries the Securities & Exchange Commission. Have mutual fund managers become in-and-outers—traders? Their buying of the same glamor stocks has a bootstraplifting effect.

Besides, most go-go funds are "young." They haven't—through long-term sales effort and market appreciation—become investment giants. A few highflying stocks would boost the percentage gain of a fund with assets of $10 million, but would be swallowed like a boulder in the ocean in a billion-dollar portfolio. However, unsuccessful selections will impoverish a small portfolio even as boom-boom stocks enrich it.

Not one billion-dollar fund was among the top 15 Growth funds last year. Eleven were under $100 million in assets. The largest, Keystone S-4, had assets of $477 million. As it progressed in size, it dropped in rank from fifth to 26th and then climbed back to 15th. This is shown in the fund-by-fund table (available on request).

ONCE, DREYFUS Fund was a star performer. It still ranks 11th for the ten-years ended December 31, 1967. Bu as its assets climbed from $15 million to $2.3 billion, it dropped in rank to 36 for five years, 46 for three years, and 63 for one year. Putnam Growth Fund dropped from seventh in ten-year performance to 31st as assets rose from $1 million to more than half a billion.

In the Growth with Income group, only three of the top ten for the period from 1958-67 were among the top ten last year. One of these, Investment Co. of America increased in size from $90 million to more than $800 million. And its rank fell from first, second, or third to ninth.

Only one superior Balanced Fund had assets in excess of $300 million. Among the lower-ranking funds (bottom third) were two of more than a billion. In the top third among Income funds, only one had assets of $100 million.

This "sizes up" the times as well as performance. Go-go funds "sell." People, these days, shy away from staid funds devoted to income.

CAVEATS ARE necessary.

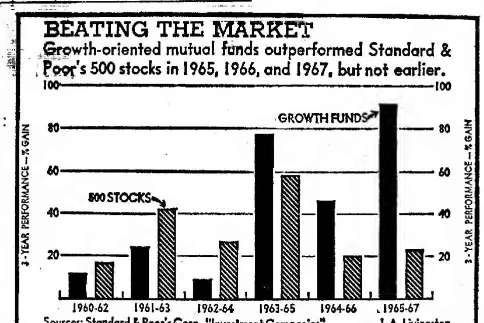
One: Investors would be foolish to choose a fund merely because it's small. Some funds are small because performance has been poor.

Two: Past performance is a guide but not prologue. Excellence can be self-defeating. As investors rush after percentage gains, successful funds can get size-bound. Enterprise Fund is an exception. It has grown from $3 million to $250 million yet has ranked No. 1 in performance consistenly. Rowe Price stopped selling shares in its New Horizons Fund when assets climbed above $100 million. It, too, has had a good record.

Does not mean should not seek a good small fund rather than a good large fund.

Enterprise

Three: Managers of funds which charge a sales commission (load funds) possess no monopoly on results. As a group, they perform no better and no worse than no-load (no-commission) funds. This year's fund-by-fund study reconfirms previous studies on this.



As a corollary, the sales charge—customarily 9.3% on the purchase price—handicaps the investor. But individual load funds do surpass the no loads—both in terms of How Management Performed and How Investors Fared. This is to be expected. Load funds outnumber no-loads seven to one.

Fund-by-fund results, showing How Managements Performed and How Investors Fared, are available on request. Send large self-addressed stamped envelope to J. A. Livingston, c/o Philadelphia Bulletin, Philadelphia, Pennsylvania, 19101.

[redacted] in the Senate-House conference [redacted] House Ways and Means Committee he[redacted]ng hearings in [redacted] this and many other import quota bills, together with the Administration proposal for renewal of the 1962 Trade Expansion Act[redacted]

In view of the strong protectionist pressures in both houses, the strongest in over 35 years, adjournment until after the convention has, for the moment, saved our trade